

# ANNEX C

## Supplementary Business Rates

### The modernisation agenda and the supplementary rate

- C1. The white paper *Modern Local Government: In Touch with the People*, published in July 1998, included a commitment to introduce a scheme of supplementary rates, and said we would consult on rate relief for small businesses (see annex D). Paragraph 1.3 of the green paper sets out the Government's aims for a good local government finance system. The proposed supplementary rate scheme will help to achieve those aims.
- C2. The national rate already provides 22 per cent of local authorities' funding. The amount is fixed in real terms, by statute, and the system delivers predictability and stability to both councils and ratepayers. Regular revaluations ensure that it is fairly distributed between ratepayers. We are committed to maintaining the national rate. However, there is scope to improve the system. Some aspects have been considered by the review of revaluation (see annex G). The supplementary rate will address some others.
- C3. The supplementary rate will provide an effective mechanism for discussions between councils and their business communities, leading to better consultation between them. It will improve transparency and accountability, both for the supplementary rate and across the whole range of council activities and responsibilities. In turn this will promote continuous improvement in service delivery, as councils will be better able to take account of the needs of their ratepayers. The supplementary rate will also encourage partnership, as councils and businesses work together on the projects funded by it.
- C4. Implementation of the supplementary rate would require primary legislation.

#### CURRENT ARRANGEMENTS

- C5. Many councils have good relationships with their business partners. This is especially so where there are mutual interests, such as town centre re-developments, and regeneration projects. Most if not all councils work with the private sector to deliver local services. However, in dealing with overall strategy, service delivery and expenditure, the links with the local business community are not so good.
- C6. Councils already have a statutory duty to consult business ratepayers on their budget and financial arrangements. However, where councils have established good working relations with their business communities, this statutory consultation adds little to existing wider co-operation. And where there are not such good relations, this duty is often met by the letter rather than the spirit, with business being consulted late in the budget cycle, through inappropriate methods.

- C7. For their part, local businesses use the opportunity of consultation to raise matters of general concern (such as street lighting, waste collection, parking, planning, economic regeneration and the like). They do not focus on the local authority's spending plans or its strategic direction.
- C8. The Government recognises that a significant reason for this is the lack of a common interest in financial affairs. Although rates are a major source of finance for local authority services, there is no direct local link between what businesses pay and what councils receive from the rates. The proposal for a limited supplementary rate addresses that defect. In return councils must take much greater steps to engage with local businesses, interesting them in their activities and taking more account of business views in their plans.

## RESEARCH ON BUSINESS/COUNCIL RELATIONS

- C9. The DETR commissioned research from York Consulting on *Business Perceptions of Local Government and Local Government Involvement with the Business Community*, which was published in June 2000 and is available on the internet at <http://www.local.detr.gov.uk/research/research.htm>. This confirms the above picture of current relations between local authorities and businesses. While there are some good examples of co-operation, there is much room for improvement. There is a low level of awareness amongst businesses of the role and powers, and even of the name of their local councils. Similarly, many authorities have little direct contact with their business communities, mainly limited to the area of economic development.

**The following percentages of respondents to the business survey could not correctly identify:**

- the name of their local council – 17 per cent;
- the political control of their local council – 60 per cent;
- whether their business is located in an area with two-tier local government – 32 per cent;
- the broad sources of funding for local government – 74 per cent;
- responsibility for setting the level of the rates – 66 per cent;
- what happens to the rates collected by local authorities – 81 per cent.

- C10. Businesses feel that local authorities do not sufficiently understand their needs and show a lack of will to meet those needs. On the other hand, local authorities see a lack of response from business and a shortage of time as the main barriers to better co-operation. But where they do work together successfully, both sides see benefits. Best practice shows that co-operation is most successful where there is a foundation of trust and understanding built through a range of formal and informal contacts between councils and businesses.
- C11. The research includes a number of best practice case studies and draws from these principles for councils to develop a stronger relationship with businesses. These include developing a strategy for engagement with business; establishing a business-friendly culture; building on existing successful links; recognising that the business community is not homogeneous; and engaging in a regular dialogue with business. We can draw on these examples of best practice in devising guidance to local authorities on establishing Partnership Arrangements with their business communities.

## PROPOSALS FOR CHANGE

- C12. This annex of the green paper sets out the steps that councils should take to improve their relations with their business community, in order to agree a supplementary rate. It is a two phase process:
- **Phase one** – Prior to legislation, councils should put in place effective Partnership Arrangements to involve business in all their affairs. This includes discussions about the annual budget, but also involves an effective input into the community planning process, Best Value and the wider change agenda.
  - **Phase two** – After legislation, subject to getting their phase one Partnership Arrangements endorsed through a vote of all businesses, councils will be able to raise a limited supplementary rate. Business will have the right to approve the uses to be made of this additional money.
- C13. The supplementary rate will be sufficient to give both businesses and councils an effective incentive to make the new Partnership Arrangements work, i.e. an amount that will make a real contribution to the well-being of the local community. To protect business from excessive annual increases in their rates bills, the supplementary rate can rise by no more than 1 per cent of the national rate a year. A 1 per cent supplement would raise £140m at current values if all councils levied it in full. However, it is unlikely that all councils would want to levy the supplement and others may wish to raise a smaller amount. And it is likely that not all those that wish to raise it will do so in the first year. It might therefore be more realistic to assume that only one quarter of councils raise a 1 per cent supplement in the first year, raising £35m.
- C14. In addition to the 1 per cent annual limit, there will be an overall maximum limit on the supplement of 5 per cent. It would take at least five years for any council to raise a supplement of this level. If it were to be raised by all councils in England it would be worth £700m at current values, though it is unlikely that all would raise the full amount. We propose to review this maximum limit after 5 years. If the scheme has worked well, Parliament can be asked to extend it, by raising the maximum level of the supplement, though not the 1 per cent annual limit. If it needs fine-tuning to make it work better, it can be amended. If it has not worked well, it will lapse. The onus is very much on local government to demonstrate that the supplementary rate is mutually beneficial.
- C15. Most rate income will continue to be part of the national rating system. Under this, the Government sets a national multiplier, limited by the increase in the Retail Price Index. Rates are paid into a national pool and redistributed to local authorities as an equal amount per head of population. This will continue.
- C16. The 1998 white paper, *Modernising Local Government: In Touch with the People* proposed that local authorities might, if they wish, give a rebate on the national rate – the reverse of levying a supplement. However an authority doing so would have to fund the rebate from its own resources.
- C17. We have already had extensive discussions with representative business organisations and the Local Government Association (LGA) in developing the proposals set out here. These are based on the 1998 white paper, but they also take into account the many useful and varied comments we have received. We accept that there is always room for improvement, and in some areas there are difficult choices to be made from a range of viable options. We are therefore keen to receive your comments.

## Phase One: Establishing Partnership Arrangements with Business

- C18. All councils are expected to put in place effective arrangements for consultation and partnership with their local communities, including local business. They need to do this as part of their overall response to the need to modernise. Without it, the business community will not be able to play its full role or use its skills and experiences in improving the local area.
- C19. Councils should establish Partnership Arrangements with local business in phase one, that is before the introduction of the supplementary rate scheme. These Partnership Arrangements will provide a means for involving business **now** in the corporate and budgetary decisions of the council. Effective Partnership Arrangements may also assist authorities in the delivery of other aspects of the local government modernisation agenda, in particular, the duty to prepare community strategies and the implementation of Best Value.

### A GOOD LOCAL SCHEME

- C20. The intention is that councils work up with their local business communities Partnership Arrangements that suit them best. However, a good set of Partnership Arrangements will have the following features:
- they will enable a broad degree of involvement from the business community;
  - they will be easy for business to take part in, with effective communication with the large majority of businesses, and detailed discussions with a number of representative business people;
  - they will need to provide an effective means of influencing the local authority, including a real input to:
    - the budget setting process,
    - the Best Value and modernisation agenda, and
    - effective methods for business to raise matters of concern to them,
  - plus:
    - a structure capable of taking decisions on the supplementary rate when required under phase two.
  - the Partnership Arrangements need to be accountable to the wider business community and capable of internal review and change to reflect the changing needs of the business community.
- C21. Outlines of some of the differing types of Partnership Arrangements that may be established are given in Appendix 1: Sample Partnership Arrangements.

## DESIGN OF THE PARTNERSHIP ARRANGEMENTS

- C22. The Partnership Arrangements need to:
- involve all sectors of business, large and small; and
  - accommodate the different local authorities: the county council and the police and fire authorities, as well as the district council. After all, services provided by the county – such as roads and the education of the future work force – and by the police and fire services are of vital importance for business.
- C23. But they must also be straightforward if business is not to be deterred from active involvement.
- C24. The clear message from our preliminary discussions with business representatives is that there must be only one set of Partnership Arrangements for any one area. Businesses in a shire district would not want to be party to separate Partnership Arrangements with the district and with the county councils. This could lead to duplication of effort and would add complexity, especially if the district and county Partnership Arrangements took a different form.
- C25. If businesses are to play their part the Partnership Arrangements must not be too remote. Small businesses in particular would find it difficult to relate to Partnership Arrangements established at county council level.

### **District level Partnership Arrangements**

- C26. The Partnership Arrangements therefore need to be at the district level, with the county taking an active part with the district in establishing the Partnership Arrangements in two-tier areas. Councils at every level need to work together, and with businesses, to get business input into a wide range of initiatives.
- C27. The Partnership Arrangements will need to be sufficiently flexible to allow a range of methods of working with business. This includes the relationship between counties and districts, which will need to suit local circumstances. It could also encompass county contacts with regional business groupings, as well as other existing routes for discussion between councils and businesses at district, county or regional level. But the district-based Partnership Arrangements are essential for getting decisions, especially with respect to uses of a supplementary rate.

### **The Police**

- C28. To ensure the Partnership Arrangements are not too complicated, the county council could also represent the police. Representatives of the local police service would be involved when detailed policing issues were for discussion.

### **Metropolitan areas outside London**

- C29. In large cities each metropolitan district would set up its own Partnership Arrangements. Again they could represent the police and fire authorities, though with the local fire and police services being involved where their role in the district was the subject of discussion.

### **London**

- C30. In London the boroughs would each set up their own Partnership Arrangements. The new Greater London Authority would need to be involved in the Partnership Arrangements, given its responsibilities for such key services as transport, as well as the fire and police services.

### **Unitary authorities**

- C31. Areas with a single unitary authority instead of a district and county council would establish a set of Partnership Arrangements, and agree with the police and fire services how they wish to be involved.

### **Parish councils**

- C32. Parish councils are currently funded mainly from council tax and have no direct access to funds from redistributed rates. The Government has no plans to allow parishes access to the supplementary rate. However, some of the larger parish and town councils provide a significant level of services of relevance to local businesses – either on their own account or as agents of districts – and are likely to have links with their local business communities. In some areas, districts or counties will wish to involve parish and town councils, where these are an effective local voice and where they provide significant local public services. For example, some district councils cover dispersed rural areas with a number of discrete local communities. The district and county councils will find it helpful to hear the views of the parish and town councils, together with local businesses, in considering use of the supplementary rate.

### **Selective supplementary rates and town improvement schemes**

- C33. The supplementary rate may be raised selectively on only some ratepayers in a district (see paragraphs C47 to C50 below). It may also be used as a mechanism to fund town improvement schemes (see annex F). Where the supplementary rate is to be raised in a limited area within a district, the Partnership Arrangements will need to accommodate this. Partnership Arrangements would need to cover all businesses in a council's area, to ensure that all businesses were engaged in the wider consultative process and none were neglected. But within those Partnership Arrangements, there would also need to be a mechanism to discuss the raising and use of a more limited supplementary rate with those ratepayers affected by it.

## **WORK OF THE PARTNERSHIP ARRANGEMENTS**

- C34. The Partnership Arrangements will be the means by which business engages in discussion on:

### **Council spending**

- C35. A council will use the Partnership Arrangements to discuss its revenue and capital budgets with the business community. They will enable business to scrutinise fully the range of an authority's expenditure. This role of the Partnership Arrangements has implications for the existing duty of councils, under the Local Government Finance Act 1992 to consult ratepayers about proposals for expenditure.

- **Views are invited on whether the duty to consult on council expenditure, under the 1992 Act, should be restricted to those councils where there are no Partnership Arrangements.**

**Supplementary rate**

- C36. The way in which the Partnership Arrangements will enable decisions to be taken on supplementary rates is discussed below (paragraphs C.51 to C.68).

**Community Planning**

- C37. Effective Partnership Arrangements might also play a role in community planning.
- C38. The Local Government Act 2000 places a duty on local authorities to prepare strategies for the economic, social and environmental well-being of their communities. In preparing such strategies, authorities will be expected to work in partnership with other statutory agencies, voluntary and community groups, as well as with the business community.
- C39. Authorities will be given discretion as to how they go about community planning so that processes can be tailored to local conditions. In working up arrangements for supplementary rate consultation with the business community, authorities and business will want to consider whether the Partnership Arrangements can be framed in a way which helps advance the community planning agenda.

**GUIDANCE**

- C40. As there will be little experience on which to draw when first setting up the Partnership Arrangements, the Government will issue guidance on best practice. In doing so it will draw on the research by York Consulting into how councils can best work with their business communities, as well as work being done by both the LGA and by the Confederation of British Industry. It will also make use of the work being done under the beacon council scheme to pioneer good practice for councils in leading and working with their local communities.
- C41. The guidance will include models of types of Partnership Arrangements which local communities might adapt to their local needs (see appendix 1 for examples of these models).
- C42. After the Partnership Arrangements have been set up, it will be important for councils and business to remain open to ways of improving them in the light of experience gained throughout the country in the working of this new system. Local authorities will need to set up mechanisms to ensure that experience is shared, best practice guidance updated and spread to all councils.

## Phase Two: A supplementary rate

**ENDORSEMENT OF PARTNERSHIP ARRANGEMENTS**

- C43. A council will not be able to set and collect a supplementary rate until the Partnership Arrangements established under phase one have been agreed to by the whole business community. This is essential because decisions on the use of the supplementary rate, affecting all ratepayers, will be made through these Partnership Arrangements. They must therefore be fully representative of the wishes of the business community, which will have many different components in any area.

- C44. We suggest that the only way of securing endorsement of the Partnership Arrangements by the whole spectrum of the business community is through a vote of all ratepayers. Such a vote would only be required to establish the Partnership Arrangements and for subsequent re-endorsement every four years. It would be separate from annual decisions on the supplementary rate itself, which would be part of the endorsed Partnership Arrangements. The process is set out in Appendix 2: The Endorsement of the Partnership Arrangements by Business.
- C45. If a council cannot secure the agreement of business, it will be able to ask Ministers for permission to put in place Partnership Arrangements chosen from a number of approved models. But they will only give permission if the council can show it has established effective Partnership Arrangements under phase one and has seriously sought the endorsement of local business to those Partnership Arrangements. Ministers would grant permission sparingly and will need to be convinced that all legitimate business concerns had been met.
- C46. Any model Partnership Arrangements agreed by Ministers will replace those that the council had established under phase one, in taking decisions on the use of any supplementary rate.

#### SELECTIVE SUPPLEMENTARY RATE

- C47. There may sometimes be a case for restricting the supplementary rate to part of an authority's area or specific classes of ratepayers. The 1998 white paper suggested that statutory beacon councils should be able to raise an additional supplementary rate, targeted on specific areas or groups of ratepayers. The Urban Task Force report recommended that town improvement schemes, where local businesses contribute to the costs of local improvement schemes in specific areas, should be placed on a statutory footing (see annex F).
- C48. We now propose that the ability to set the supplementary rate selectively should be available to all councils, not just beacons. Partnership Arrangements would still have to be established across the whole of the local authority area, so that all businesses were involved in discussions with the council on its expenditure and other matters. But, subject to the agreement of the businesses affected, the supplementary rate could be levied and spent in one or more limited areas, or applied to certain groups of ratepayer. This would also provide one possible mechanism for funding town improvement schemes.
- C49. Councils would be able to raise a supplementary rate across the whole of the area once they have established Partnership Arrangements endorsed by the business community. But if those Arrangements do not secure agreement on the use of the supplementary rate income it should be surrendered to the national rate pool. We propose that the decision on whether to raise a **selective** supplementary rate should also rest with the council. However, they would only be able to do so if they had secured agreement to raise it from the ratepayers affected, through the endorsed Partnership Arrangements. The council would also need their agreement to the use of the funds raised. This extra safeguard to protect business interests will prevent one group of businesses in an area facing a higher rate than their neighbours in the same authority, unless they had agreed to do so through the Partnership Arrangements, in order to benefit from the extra expenditure which it would fund.
- C50. If ratepayers did not agree to a selective rate, the council would not be able to raise it. But it would still be able to introduce a supplement across the whole of its area, the use of which would depend on business agreement, through the Partnership Arrangements.

- **Views are invited on the possibility of all councils being able to raise a selective supplementary rate, subject to the agreement of the ratepayers affected by it.**

#### **NEED FOR BUSINESS AGREEMENT ON THE USE OF THE SUPPLEMENTARY RATE**

- C51. Once the Partnership Arrangements are in place, either through endorsement by a majority of local business, or failing that the agreement of Ministers, the council will be able to raise a supplementary rate. But it will not be able to spend the supplementary rate income unless it secures the agreement of business, through the endorsed Partnership Arrangements, as to the projects on which to use the funds raised.
- C52. If there is no agreement the money raised will have to be paid into the national rate pool to be shared among all English local authorities. This will act as an incentive to local agreement between councils and businesses.

#### **WHEN MUST AGREEMENT BE REACHED BY?**

- C53. It has been suggested that agreement should be reached before the supplementary rate is set. This would promote long-term planning. But it would also give business a simple means of blocking any supplementary rate. If they refused to agree to anything, then the rate would be unlikely to be levied, as there would be no point in a council collecting a supplementary rate which it knew in advance would have to be paid into the national pool.
- C54. It would therefore seem more effective to lay down that agreement must be reached by the last day of the financial year concerned. This does not mean that the income will have to be spent in that year. If business agreed, the income could be accumulated over a number of years to provide sufficient funds for a large project later.
- C55. But it has also been suggested that while agreement need not precede the setting of the supplementary rate, it should be earlier than the end of the financial year in which the rate is collected. It might be better to require agreement be reached within two months or so after the start of the financial year. This would concentrate minds, and ensure there was not protracted haggling over the issue.
- **Views are invited on whether agreement on the use of the supplementary rate should be reached shortly after the start of the financial year, or left to the end of the financial year in which it is raised.**

#### **MONITORING USE OF THE SUPPLEMENTARY RATE**

- C56. The Partnership Arrangements will provide the means by which business can effectively monitor the schemes being funded by the supplementary rate. They will ensure that the money raised is additional to the council's other expenditure, and that it is not being used as a substitute for other sources of income. Indeed, the Partnership Arrangements would allow business to scrutinise the full range of the authority's expenditure. This would be useful to business in agreeing the use of the supplementary rate, and then monitoring the subsequent implementation of that decision. For example, if the supplementary rate were earmarked for an extra local transport scheme, discussion about that scheme would benefit from being held in the context of the authority's Local Transport Plan as a whole.

## **ALLOCATION OF SUPPLEMENTARY RATE BETWEEN DIFFERENT AUTHORITIES**

### **A single supplementary rate pool**

- C57. All the supplementary rate collected in a district would be paid into a supplementary rate pool for that district, to be used as agreed through the Partnership Arrangements for that area.
- C58. This means that where more than one authority is a party to the Partnership Arrangements, the income from the rate is not divided up into two parts with the county council having one share and the district the other, and each having to spend their shares on their own projects. Instead with a single pool, the money can be used on any projects of benefit to the local community so long as all the parties to the Partnership Arrangements are agreed.

### **Decision to levy a supplementary rate**

- C59. The size of the supplementary rate collected will be the result of separate decisions by those authorities entitled to be parties to the Partnership Arrangements. In the shire counties this would be both the districts and the counties, in London, both the boroughs and the GLA. Elsewhere the decision would be for the metropolitan districts or the unitary authorities alone.
- C60. It would be for each authority to decide for itself whether it wished to raise its share of the supplementary rate. But whatever the decisions, the supplementary rate in total could not exceed 1 per cent of a ratepayer's national rate in the first year it was raised. Nor could it increase in any year by more than 1 per cent. Nor could it eventually exceed 5 per cent of the national rate paid by any business, subject to any decisions by Parliament to increase this maximum level after five years (see paragraph C14).
- C61. Thus, if a county council decided not to raise a supplementary rate or give a rebate on the national rate, that decision would not open the door to district councils in the county raising the full supplementary rate on their own account. The districts could only raise their share.

### **Size of shares of the supplementary rate**

- C62. The intention is that the shares of the supplementary rate between counties and districts and between the GLA and the London boroughs should be proportionate to the amounts they receive in income from the national rate. The income from the national pool is shared between the county councils and their districts in proportion to their respective responsibilities. The same rule applies in London, regarding shares between the boroughs and the GLA. This means that the counties and the boroughs would have larger shares than the districts and the GLA.

### **Authorities' influence over the use of their shares of the supplementary rate**

- C63. Although all of the supplementary rate will be paid into a supplementary rate pool, each authority will retain a degree of influence over that share of the pool's income resulting from its decision to levy a rate. If, for example, a county council decided to raise its share of the supplementary rate, then it would have the power to veto proposals on the use of that share. In other words, the district and businesses could not decide how to spend the county's share against the wishes of the county. If no agreement could be reached between business and the county, then the county's share would be paid into the national pool for re-distribution among all authorities.

- C64. This will ensure that an authority that decides to levy a supplementary rate does not find its views on the use of that rate ignored by other parties to the Partnership Arrangements.

#### **Flexibility on the use of the supplementary rate**

- C65. But this safeguard need not jeopardise flexibility, nor run counter to encouraging the co-ordination and integration of district and county functions. A district could decide to use its share of the supplementary rate to help fund a county scheme, or the other way round.
- C66. For example, a district council might have no projects of its own on which to spend its share of the supplementary rate. Accordingly, it might decide not to levy its share of the rate. Alternatively, it might decide to levy its share and use the resulting resources to help fund a county council scheme, such as a new transport improvement scheme in its area. Of course, the district would still need to secure the agreement of business to this contribution to the county's scheme.
- C67. Further flexibility could be built into the system by allowing district and county councils to use the supplementary rate income raised in a district to contribute to the funding of a project outside of that district. Obviously, the county or district council would need to secure the agreement of business within the district to spending money outside it. A case where such agreement might be forthcoming would be a transport improvement scheme in an authority adjacent to the district, which would benefit business within the district.
- C68. The question arises whether there should be any limitations on the use of the supplementary rate subject to the tests of business agreement and expenditure for the benefit of the area. As businesses are partners in the process, should a limit on existing statutory powers of local authorities prevent a worthwhile project going ahead? If there are no limitations, local authorities would have wide general powers to spend money raised through the supplementary rate. However, this could conflict with the functions of other statutory agencies. An alternative approach would be for business or the Partnership Arrangements to make agreements with the relevant agencies.

- **We are interested in your views on the allocation and use of the supplementary rate.**

#### **PROTECTIONS FOR BUSINESS**

- C69. A supplementary rate is aimed at giving business and local authorities greater incentives to work more closely together. Business will have a real say in how the supplementary rate is to be used, but local authorities will have the right to raise the rate or to give a local rebate. The Government will make sure that businesses are protected from excessive demands.

#### **EFFECTIVE PARTNERSHIP ARRANGEMENTS**

- C70. The first protection is the need for effective phase one Partnership Arrangements. These have to allow decisions to be made on the use of the supplementary rate. They have to be endorsed by a vote of all eligible ratepayers.
- C71. This is a significant hurdle for local authorities to cross. They will need to have carried out wide-ranging discussions with representatives of business to build the support needed to win the endorsement.

- C72. Local authorities may be concerned that businesses can veto a supplementary rate by failing to endorse any Partnership Arrangements. This is not the Government's intention. Providing the authority can demonstrate that it has made extensive efforts to put in place effective Partnership Arrangements, they will be able to ask for Ministers' permission to put in place Partnership Arrangements chosen from a number of models approved by Ministers.
- C73. The Government would grant permission sparingly and will need to be convinced that all legitimate business concerns had been met.
- C74. Partnership Arrangements that pass all the tests will give business a real say in the use of the supplementary rate. They can ensure it is truly additional expenditure, and that it is used to meet their local concerns and interests.
- C75. The Partnership Arrangements will also provide the means for ensuring that a selective supplementary rate can be levied on a smaller area or group of ratepayers only with the agreement of the ratepayers affected by it. This will protect smaller groups of businesses from paying higher rates than paid by their neighbours in the same authority, unless they had agreed to do so – through the Partnership Arrangements – in order to benefit from the additional funds raised.

#### **LINK WITH COUNCIL TAX**

- C76. The 1998 white paper said that the supplementary rate should not be raised as a substitute for money that should have been raised through the council tax. The Government is of the view that the amount of supplementary rates that can be raised should be limited by reference to the amount of council tax raised.
- C77. There are different ways to achieve this, and different views on which is best. The Government is committed to the principle of a link. A decision on the best way of making it will be made once it is clear how the scheme will work in detail and the implications of different options can be fully explored.
- C78. As stated in the 1998 white paper, it will be open to local business to agree that this link could be dropped, allowing a supplementary rate of 5 per cent (after five years) to be levied, without a corresponding increase in the council tax. But this will be a decision for local business alone.
- **Views on how a link with Council Tax might be made would be welcome.**

#### **NATIONAL LIMITS**

- C79. The supplementary rate should be sufficiently large to be of importance to both local authorities and business, but no larger. The Government has therefore decided that there should be a national limit on what can be raised locally.
- C80. This limit set out in the 1998 white paper was that no more than 1 per cent of the national rate can be raised from any ratepayer in the first year, and the increase in any year will be no more than 1 per cent. The overall total cannot be more than 5 per cent of the national rate. However, we propose to review this limit after five years, if experience shows that it would be helpful to increase the limit and to do so would not place undue burdens on business. There will be no increase in the 1 per cent annual limit. Any increase in the 5 per cent limit maximum would be subject to the approval of Parliament. However, if the scheme has not worked well, it will lapse after five years.

- C81. The 1998 white paper proposed an exception to these limits for statutory beacon councils. It suggested that they might be given the power to raise an additional supplementary rate, amounting to a maximum of 10 per cent of the national rate over at least five years, with an annual limit of 2 per cent. If this additional rate were raised across the whole of a local authority area, it could place an additional burden on business. Instead, we now propose that high-performing authorities should only be able to raise this additional supplementary rate selectively, in specific parts of their area or certain groups of ratepayers, and not across the whole of their area.
- C82. As an additional protection for business, high-performing authorities would only be able to raise an additional supplementary rate if they had secured the agreement of those ratepayers affected, through the Partnership Arrangements. Business would therefore only agree to the levying of the higher rate if they wished to see the benefits of the resulting additional spending.
- C83. Businesses will be protected in four main ways.
- No supplementary rate can be raised unless effective Partnership Arrangements approved by the business community exist.
  - A selective supplementary rate, or an additional supplementary rate in high-performing authorities, could only be raised subject to the agreement of those affected through the Partnership Arrangements.
  - The supplementary rate will be linked to council tax.
  - There will be an overriding national limit to the total that can be raised and the change in any one year.

The Government believes this will provide the real protection that businesses are looking for.

## Special Cases

### CITY OF LONDON

- C84. Since 1990, the City of London has had a power to levy a local supplement on the national rate or to give a rebate, though this power has never been used. The City's electoral franchise already extends to certain business ratepayers, providing a unique foundation for partnership between the authority and its business community.
- C85. This suggests that the new supplementary rate need not apply to the City. But the existing arrangements in the City will need adapting to allow the GLA to levy a supplementary rate precept there, to be used in ways agreed with the City Corporation as the representative of business.

### CENTRAL LIST PROPERTIES

- C86. For valuation purposes, most properties in a local authority area are included on local rating lists. Some businesses have networks that cross local authority boundaries and are kept on a central list. These are principally utilities, such as telecommunications, gas, water and electricity supply companies and the railways.

- C87. For practical purposes, the intention is to retain the central list. It could, however, be perceived as unfair if central list companies did not contribute to the supplementary rate. It is therefore proposed that these companies should pay the supplementary rate in respect of properties on the central rating list. The amount they would be expected to pay would be the average of all supplementary rates across England. This would go into the national pool and then be redistributed to all authorities in the same way as the national rate.
- C88. Some of these companies may also occupy properties that are on local rating lists. Other utilities that occupy a single site, such as electricity generating stations or docks and harbours, are also in local rating lists. Such properties would be liable to any supplement raised by the local authority and their occupiers would be able to participate in the local endorsement procedures and Partnership Arrangements.

#### **'RATE RICH' AUTHORITIES**

- C89. For a few authorities, the amount of business rates collected is far greater than the amount of council tax. These are known as 'rate rich' authorities. They would have access to larger amounts of supplementary rate income than other authorities.
- C90. The Government does not intend to apply any special limitations on the levying of the supplementary rate by these authorities. But it does intend to take reserve powers, under which it could require 'rate rich' authorities to pay a proportion of their supplementary rate income into the national pool, for redistribution among all authorities.

- **We would appreciate your comments on these various special cases**

# APPENDIX 1

## Sample partnership arrangements

- C1.1. Local authorities and businesses need real examples of how to make these proposals work. Ideas will come from several sources:
- Work identifying best practice currently being done by the LGA and business organisations;
  - Research commissioned by DETR into the best existing arrangements;
  - Good working arrangements promoted by the non-statutory beacon councils, the first of which were announced at the end of 1999;
  - Formal guidance and model arrangements released by DETR.
- C1.2. It will take time to get concrete examples from these sources. This appendix suggests four broad sample schemes to give a flavour of what might be involved.
- C1.3. These samples came out of the informal discussions that the Department had with business organisations and other groups. They are not a comprehensive list of all the possible arrangements and neither are they necessarily the best ways of improving partnerships with business. They are, however, an indication of how the arrangements might work.

### A. Extended Traditional Consultation

- C1.4. The most common current form of consultation is probably with existing representative bodies of businesses such as Chambers of Commerce. Where these have the confidence of the wider business community they may be the most convenient foundation for developing Partnership Arrangements between the local authority and business. However, Chambers do not necessarily represent all types of business ratepayers in an area, so any consultation should be extended to ensure all were represented.
- C1.5. The general approach would be that the local authority would discuss its budget and other matters affecting business with representatives of the local Chamber or equivalent body. Representation could be made wider to include larger local employers and others who were not members of the Chamber. This group would take decisions on the use of supplementary rates under phase two.
- C1.6. The proposal can be set up to meet the principles for a good scheme.
- **Wide level of business involvement** – Chambers and the like are businesses' own collective organisations and are ideal for consultation. They need to be supplemented by joint arrangements for public meetings, surveys of opinion, and modern communication methods to ensure that all business can influence the process.

- **Easy for business to take part** – As Chambers are run by and for businesses, it should be easy for them to take part and influence the organisation. Similarly, they can be trusted to look after business interests and not require a lot of work by most businesses.
- **Links with the local authority** – The Chambers and other local business organisations can make direct responses to all local authority initiatives and the budget planning cycle. Under phase two, they can decide which projects funded from the supplementary rate to support. The local authorities could have regular separate meetings, or they could co-opt representatives chosen by the Chamber and similar bodies onto key committees.
- **Accountability and internal review** – There are several ways that these arrangements could be kept under review. If a locally determined and agreed number of businesses petition the local authority, it would be obliged to consult directly on alternative ways of involving business, or to see whether there was still broad support for this method. In either case, there would be the option of testing through the endorsement process (see paragraphs C43 to C46 and appendix 2).

## B. Business Forum approach

- C1.7. The local authority and businesses create a representative forum. This could include representatives of Chambers of Commerce and other local business organisations, the larger employers, representatives from particular industrial estates, shopping centres or other local groups of traders, and could include individual businessmen.
- C1.8. It would choose from among its members a small number to have detailed talks with local authorities. These representatives would report back to the forum two or three times a year to maintain accountability and to agree the use of phase two supplementary rate income.
- C1.9. There are various ways that this could work. The forum could be seen as sovereign, or critical decisions (such as the annual decision on use of business rates) could be referred to a vote of all eligible ratepayers. This may be necessary, for example, where a selective supplementary rate is proposed, affecting only a specific group of ratepayers and not all of those in the district, for example for a town improvement scheme.
- C1.10. The proposal can be set up to meet the principles for a good scheme.
- **Wide level of business involvement** – The forum would be set up to be representative and it would be endorsed for phase two purposes. The forum could work jointly with local authorities where wider communication and feedback was required (e.g. through public meetings, surveys of opinion, other publicity).
  - **Easy for business to take part** – Only a small number of business people would be involved in detailed discussions with local authorities. A larger number would take part in less frequent meetings. Businesses as a whole would get feedback from their local representatives and any jointly agreed publicity.
  - **Links with the local authority** – Detailed talks would cover general budget matters, services to business, and the use of phase two supplementary rate income. The local authorities could have regular separate meetings, or they could co-opt the chosen representatives onto key committees.

- **Accountability and internal review** – There would be several ways that the Partnership Arrangements could be kept under review. Firstly, the forum could change its representatives who were talking to the local authority. Secondly, local businesses could change their local representative. Thirdly, a petition of businesses passing a threshold, or a significant minority of Forum members could require the local authority to repeat the endorsement process (see paragraphs C43 to C46 and appendix 2).

## C. Area Based Partnership Arrangements

- C1.11. We see Partnership Arrangements mainly based on local authority district areas. In some cases, because of geographical spread in rural authorities, or where there are distinct business communities in one authority, a different approach may work better.
- C1.12. The approach is to set up a business forum for each of a number of areas (e.g. for each town in a rural district), which between them would cover the whole of the authority. They could each chose a representative to take part in cross-district matters, and an even smaller group could be selected to have detailed regular discussions with local authorities. Where such local areas include parish or town councils which provide a significant level of local services of relevance to business and have good links with their local business communities, representatives of those councils should also be involved in the business forum for that area.
- C1.13. However, each local forum would have a remit on local issues and improvements. In particular, the phase two supplementary rate income could be pre-allocated to the different areas to decide how the money should be spent. This arrangement would not prevent cross-district projects being supported.
- C1.14. This model could be used where selective supplementary rates were proposed, including town improvement schemes, with rate supplements in some areas and not in others, subject to the agreement of those ratepayers affected. But Partnership Arrangements would need to cover all areas in an authority, whether or not the supplementary rate was levied in all of them.
- C1.15. The proposal can be set up to meet the principles for a good scheme.
- **Wide level of business involvement** – The area structure would be set up to be representative and it would be endorsed for phase two purposes. The various groups could work jointly with local authorities where wider communication and feedback was required (e.g. through public meetings, surveys of opinion, other publicity).
  - **Easy for business to take part** – Only a small number of business people would be involved in detailed discussions with local authorities. A larger number would take part in less frequent meetings. Businesses as a whole would get feedback from their local representatives and any jointly agreed publicity. Business interest would be focused on local matters of most direct relevance.
  - **Links with the local authority** – Detailed talks would cover general budget matters, services to business, and the use of phase two supplementary rate income. The local authorities would have regular separate meetings in each area, but they could co-opt some representatives onto key committees. The local focus would make it easier to get agreement from businesses where different localities found it hard to relate to problems and issues in other areas.

- **Accountability and internal review** – Both the area structure and local Partnership Arrangements need to be kept under review. A local forum can change its representatives who are talking to the local authority. The area structure would be reviewed following a petition of businesses passing a threshold, requiring the local authority to repeat the endorsement process (see paragraphs C43 to C46 and appendix 2).

## D. Elected Business Representatives

- C1.16. The process of choosing representatives of business could be formalised into an elective process. Businesses would elect a number of representatives who would have the authority to represent the interests of all businesses. There could be one constituency with several people elected, or different constituencies to represent different areas or types of ratepayers.
- C1.17. Where selective supplementary rates are proposed, for example for town improvement schemes, representatives of those ratepayers affected would need to be elected. Those representatives could then also participate in the district-wide Partnership Arrangements.
- C1.18. There are many matters of detail that would need to be decided locally. This would include the majority required for decisions (especially about the use of phase two supplementary rates), the term of office, the voting system, and so on.
- C1.19. There are obvious costs associated with this approach, but it avoids doubt about authority to decide. The local authority would need to supplement the views of elected business people with wider surveys of opinion on other initiatives and developments affecting business in the round.
- C1.20. The proposal can be set up to meet the principles for a good scheme.
- **Wide level of business involvement** – All businesses would have a right to select their representative. Elected business people could work jointly with local authorities where wider communication and feedback was required (e.g. through public meetings, surveys of opinion, other publicity).
  - **Easy for business to take part** – Only the elected representatives would be involved in detailed discussions with local authorities. Businesses as a whole would be able to lobby and get feedback from their local representatives. They should have confidence that their interests were being protected.
  - **Links with the local authority** – Detailed talks with the elected representatives would cover general budget matters, services to business, and the use of phase two supplementary rate income. Local authorities could co-opt some representatives onto key committees. It would be clear how agreement could be reached.
  - **Accountability and internal review** – Businesses would be able to change their representatives at the periodic elections. The concept of the elected structure could be reviewed following either a vote of elected representatives (perhaps requiring a two-thirds majority) or a petition of businesses passing a threshold. This would require the local authority to repeat the endorsement process (see paragraphs C43 to C46 and appendix 2).

## APPENDIX 2

# The endorsement of the partnership arrangements by business

- C2.1. Paragraphs C18 to C42 deal with the need for local authorities to establish effective Partnership Arrangements with their businesses. These Partnership Arrangements would be the means for making decisions about use of the supplementary rate, once they had been formally endorsed (paragraphs C43 to C46).
- C2.2. Endorsement will be achieved through a vote of all eligible ratepayers. This is the only effective and practical way of securing endorsement of the Partnership Arrangements by the whole business community. Such a vote would only be required to establish the Partnership Arrangements and for subsequent re-endorsement every four years. It would be separate from annual decisions on the supplementary rate itself, which would be part of the endorsed Partnership Arrangements.
- **We would be interested to hear any alternative suggestions for securing the endorsement of the Partnership Arrangements by the whole business community.**

## Eligibility to vote

- C2.3. In order to arrange a ballot, a local authority needs to be sure who its ratepayers are. There are, however, difficulties in doing this as the business community is constantly changing.
- C2.4. The Local Rating Lists provide an administratively simple way of identifying within a locality each business property (hereditament) and its rateable value. In most cases there is a single ratepayer occupying each hereditament and that ratepayer would have the vote for that property. Sometimes a hereditament is occupied by more than one business. In such a case the vote would go to the business named as the ratepayer for the property.
- C2.5. There is a case for denying the vote to certain ratepayers. Bodies which are funded out of the rates are one obvious example. The proposal is that the following groups should not be able to vote:
- local authorities and associated bodies; and
  - other public bodies, such as maintained schools.
- C2.6. The Government does not intend to give itself a vote. Therefore the ratepayers in respect of crown properties would be denied the vote.

- C2.7. There are some classes of property that for practical reasons should not be allowed to vote. These are properties that do not appear in a local rating list, because they are in the central rating list. Their rates are not collected by local authorities, but are paid direct to the national pool.
- C2.8. Views are also invited on whether NHS Trust Hospitals and charities should have the vote. NHS Trust hospitals are in the public sector but are not funded out of the rates, and they would have to pay a supplementary rate out of limited resources. Charities could be allowed to vote, as their votes would not be a significant part of the total number of votes cast. Alternatively the weight given to the votes of charities might be reduced. As charities are automatically exempted from 80 per cent of their rate bills, then only 20 per cent of the rateable values of their properties should be taken into account under the dual-key voting system (see below).
- C2.9. There are other problematic cases. For example, should the owners of advertising hoardings and radio masts have the vote? The proposal is that these and similar hereditaments should not be eligible for a vote. One suggestion is that they be excluded under a de minimis rule and/or a requirement that a hereditament must be capable of occupation, to qualify for a vote.
- **We would appreciate your views about eligibility to vote.**

## The Voting System

- C2.10. Having identified which hereditaments should be eligible for the vote, it is important to have a voting system that is fair. The proposal is to use a dual-key voting system. Under this system votes would be counted in two separate ways. For the Partnership Arrangements to be endorsed, under both ways of counting, more than 50 per cent of votes cast would have to be in support of the Partnership Arrangements. To ensure proper scrutiny of the system, the Government will put in place appropriate safeguards.
- C2.11. The first way of counting the votes would be by number of hereditaments. A small property would carry equal weight to that of a very large and valuable property.
- C2.12. Under the second way, rateable value would be taken into account. And the weight given to each vote would directly relate to the rateable value of the property. Thus the vote in respect of a property with a rateable value of £500,000 would carry 100 times the weight of a vote in respect of a property with a rateable value of £5,000.
- **Do you agree with the proposed dual-key system of voting?**
- C2.13. To ensure maximum participation and flexibility, it is proposed that local authorities should be given the flexibility to gain endorsement for the Partnership Arrangements in a variety of ways:
- by one or more meetings (at which all attendees would cast their vote);
  - by proxy votes;
  - by postal voting; and
  - a combination of all or some of the above methods.
- **Do you agree?**

## Notice of the vote

- C2.14. Local authorities will need to give business plenty of advance information about the purpose and nature of the Partnership Arrangements, and in developing proposals for the Partnership Arrangements they will need to hold discussions with business representatives.
- C2.15. When it comes to a formal vote of endorsement, ratepayers should be given sufficient time to consider the issues and reach a decision. They are being asked to agree who should represent their interests and how they will be put to the council, over a period of years, so the decision should not be rushed. We suggest that the local authority must give at least 56 days notice of the vote to all ratepayers.
- **Do you agree with the 56 day notice period?**
- C2.16. Once a set of Partnership Arrangements has been endorsed, the local authority would have to publicise the result, so that ratepayers generally were aware of the outcome. This could be done through the local press, on websites, and by a notice with rate bills.
- C2.17. A mechanism is required to review the Partnership Arrangements from time to time. This would ensure that the Partnership Arrangements retained the support of the business community, and would allow improvements to be made in the light of experience. We suggest that the Partnership Arrangements would need to be re-endorsed every four years.
- **Do you agree?**
- C2.18. There needs to be a mechanism for reviewing the Partnership Arrangements sooner where there is a significant number of businesses expressing concern that the Partnership Arrangements are not working effectively. The question is how we define a significant number of businesses. The threshold for calling a review should not be so low as to allow firms easily to challenge the arrangements and not so high as to make it impossible.
- C2.19. Some options are:
- A percentage of eligible ratepayers (5 per cent would probably be too low; but at the other end 30 per cent might be too high);
  - A percentage of rateable value (10 per cent might be too low; 30 per cent too high);
  - A percentage of both ratepayers and rateable value;
  - A specific number of ratepayers so that the target level was clear (but a percentage target can easily be converted locally into a specific number of ratepayers).
- **We would appreciate your views on defining the threshold for calling a review of partnership arrangements**

# Supplementary rate: Points for consultation

## Views are invited on:

- **whether the duty to consult on council expenditure, under the 1992 Act, should be restricted to those councils where there are no Partnership Arrangements.**  
(see paragraph C35)
- **the possibility of all councils being able to raise a selective supplementary rate, subject to the agreement of the ratepayers affected by it.**  
(see paragraphs C47 to C50)
- **whether agreement on the use of the supplementary rate must be reached shortly after the start of the financial year, or can be left to the end of the financial year in which it is raised.**  
(see paragraphs C53 to C 55)
- **the allocation and use of the supplementary rate.**  
(see paragraphs C57 to C68)
- **how a link with Council Tax might be made.**  
(see paragraphs C76 to C78)
- **the various special cases.**  
(see paragraphs C84 to C90)
- **any alternative suggestions for securing the endorsement of the Partnership Arrangements by the whole business community.**  
(see paragraphs C2.1 to C2.2)
- **eligibility to vote.**  
(see paragraphs C2.3 to C2.9)
- **the proposed dual-key system of voting.**  
(see paragraphs C2.10 to C2.12)
- **whether authorities should be given the flexibility to gain endorsement for the Partnership Arrangements in a variety of ways:**
  - **By one or more meetings (at which all attendees would cast their vote);**
  - **By proxy votes;**
  - **By postal voting; and**
  - **A combination of all or some of the above methods.**  
(see paragraph C2.13)
- **the 56 day notice period for endorsement votes.**  
(see paragraph C2.14 to C2.15)
- **whether the Partnership Arrangements should be re-endorsed every four years.**  
(see paragraph C2.17)
- **the right threshold for calling a review.**  
(see paragraph C2.18 to C2.19)