Self-sufficient local government: 100% Business Rates Retention - Consultation

Views of the Chief Economic Development Officers Society (CEDOS)

September 2016

Chief Economic Development Officers Society

The Chief Economic Development Officers Society (CEDOS) represents Heads of Economic Development in upper tier local authorities throughout England. Membership includes county, city and unitary Councils. The Society carries out research, develops and disseminates best practice, and publishes reports on key issues for economic development policy and practice. Through its collective expertise, it seeks to play its full part in helping to inform and shape national and regional policies and initiatives.

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Introduction

1. We welcome the Department for Communities & Local Government's consultation on the operation of the 100% Business Rates Retention scheme. With a fundamental purpose of the scheme being to provide an incentive for driving local economic growth, we are pleased to submit our response, for which we have taken soundings with our members across the country. We have focused our response on the consultation questions that relate directly to our particular areas of interest and expertise.

2. Our overall position is that we welcome the intention to move to 100% business rate retention by local authorities as an important step in providing local authorities with greater financial independence and in encouraging local economic growth and through this national economic growth. If the move is to be successful, however, it must be operated in a way that is fair, transparent and as simple as possible, and which:

- genuinely incentivises and enables local economic growth, whilst protecting areas that are less well-off and those that suffer economic shocks;

- provides new devolved responsibilities and powers that enable and support local economic growth;

- supports economic growth in all parts of the country with any additional powers and incentives being made available to all areas;

- ensures all new devolved responsibilities are financially sustainable and that local authorities are able to shape services to meet the needs of their areas.

Summary of key points

- Devolved responsibilities and powers must be genuinely new and should focus primarily on those that are linked directly to influencing and promoting economic growth, something that both local residents and businesses will expect to see. They must not be limited to those that that are demand-led and which could easily overload local authority resources.

- Key areas of additional responsibility must provide local authorities/areas throughout the country with the levers for driving business growth and prosperity in relation to, for example, skills development, business support, inward investment, infrastructure provision and transport investment.

- If devolution deal commitments are funded through retained business rates, this should not impact on the amount available for devolved services in other areas.

- The new burdens doctrine must be maintained and should include projected future years' costs to ensure full funding is in place and that new local services are sustainable.

- It is important to protect less well-off authorities with a balance being struck to ensure that protection measures do not undermine 100% business rate retention as an incentive to drive growth.

- While not against the principle of Combined Authorities and elected Mayors, we do not support the position that Combined Authorities with a directly elected Mayor can be being given the opportunity for an enhanced role in achieving growth under the 100% rates retention system.

- Any additional powers and incentives should be made available to all areas, whether or not they have formed Combined Authorities and whether or not they have an elected Mayor.

- The distribution of retained business rates or any other business growth incentives in two-tier areas must reflect fairly the respective contributions of the upper and lower-tier authorities in promoting and supporting economic growth.

Consultation questions

Which of the identified grants/responsibilities do you think are the best candidates to be funded from retained business rates? (Question 1)

3. The consultation document sets out the criteria for identifying responsibilities that could be devolved to local authorities and funded from retained business rates. It identifies an indicative list of those that could be devolved, which includes, for example, Independent Living Fund, Early years, Youth Justice and Attendance Allowance. Whilst, we are not in a position to comment in detail on the devolution of responsibilities for such things as public health, housing benefit and financial support for older people, we are concerned that despite one of the four criteria being that the devolution of a responsibility should support the drive for economic growth, the only one in the indicative list that relates directly to economic development is limited to Greater London.

4. Given the reference in the consultation document to supporting local authorities' role in driving local growth, for example through a clear link to local employment, skills or infrastructure policy, we are surprised and disappointed at the lack of reference to these in the indicative list, other than the Greater London Authority Transport Grant. Devolved responsibilities and powers should be linked primarily to influencing and promoting economic growth, something that local residents and businesses in all areas will expect to see. Businesses in particular will want to see powers devolved to local authorities that are genuinely new and ones that fit appropriately with funding coming from business rates.

5. We consider that whatever the final decisions are, the additional responsibilities must not be limited to those that that are demand-led, particularly population driven demand led requirements, rather than business

driven services, given the focus on stimulating economic growth. A focus on population driven services could easily overload local authority resources. It will be essential that the implications of these and other areas of devolved responsibility are considered carefully in the context of the demography of individual local areas as well as overall trends, including an ageing population and local economic conditions. Indeed, we note that in its report earlier this year, the House of Commons Communities & Local Government Committee recommended that additional responsibilities should not be high-risk or demand-led[1].

6. Finally, we would stress the importance of the new responsibilities being devolved on the basis of giving local authorities the ability to shape services to meet the needs of their areas. As the Communities & Local Government Select Committee has said "Local government must have genuine discretion over how the services are provided and be able to control and influence their delivery"[2].

Are there other grants/responsibilities that you consider should be devolved instead of or alongside those identified above? (Question 2)

7. In our view, it is essential that new devolved responsibilities should focus primarily on those that have a direct relationship with promoting local economic development. Indeed the consultation document itself makes this clear, stating that one of the key principles should be that devolution of a responsibility should support the drive for economic growth: "The responsibility will support local authorities' role in driving local growth, for example through a clear link to local employment, skills or infrastructure policy…"[3]. The recent House of Commons Communities & Local Government Select Committee interim report said that a clear theme emerging from the evidence it had received was that additional responsibilities should be linked to the drivers of local economic growth such as skills and transport.

8. Our view, as we said in our evidence to the Select Committee[4], is that Government and local government must focus on the fundamental purpose of allowing councils to retain 100% of business rate income, namely to enable local authorities to drive local economic growth. CEDOS considers that key areas of additional responsibility must provide local authorities/areas throughout the country with the levers for driving business growth and prosperity in relation to, for example, skills development, business support, inward investment, infrastructure provision and transport investment. Moreover, in our view, securing meaningful and sustainable growth will only be fully realised if, as well as the retention of business rates, some of the funding streams that enable growth e.g. infrastructure and skills funding are devolved to local areas, with greater levels of certainty than the current bidding round for various funds allows. CEDOS member authorities are already investing in infrastructure and

[1] *100 per cent retention of business rates: issues for consideration* House of Commons Communities and Local Government Committee June 2016

[2] Ibid

[3] *Self-sufficient local government: 100% Business Rates Retention* – Consultation Document Department for Communities & Local Government July 2016

[4] Communities & Local Government Committee Inquiry into the Government's Business Rate Proposals Evidence from the Chief Economic Development Officers Society (CEDOS) February 2016

other areas of economic growth but this needs to be matched by Government if local areas are to reach their full potential. Business rate retention provides an opportunity for local authorities to continue to seek innovative new funding of projects, for example revolving local infrastructure funds, municipal bonds and public private partnerships. Consideration of the ability for local authorities to utilise and borrow against future business rates should be seen as a key part of supporting local growth.

9. An important outcome of the move to 100% business rate retention should be achieving more active involvement of the business community in setting and supporting the growth agenda in their local areas. Businesses will want to see powers devolved to local authorities that are genuinely new and ones that fit appropriately with funding coming from business rates. If businesses see the bulk of the rates that they pay to local councils being spent on services that are not related to economic growth, it is likely to result in them feeling disenfranchised and becoming disengaged.

100% Business Rate Retention and Devolution Deals

10. The consultation document asserts that there are a number of connections between devolution deals and the proposal for 100% retained business rate. It says the Government considers that the move to self-sufficiency under business rates retention could take account of the different governance arrangements across local government and establish different funding arrangements for Mayoral Combined Authorities and the Greater London Authority than in non-devolution areas, reflecting their different governance arrangements, alongside universal devolution to every local authority.

Do you have any views on the range of associated budgets that could be pooled at the Combined Authority level? (Question 3)

11. In our view, whilst in principle, where Combined Authorities exist, it may be appropriate for budgets targeting economic growth to be pooled, this will be a matter for the local areas concerned. It will be essential to ensure that decisions on pooling in Combined Authority areas do not impact adversely on the devolution of functions and responsibilities in other areas. The opportunity for devolved services should not be determined by governance arrangements and whether or not an area has an elected Mayor.

Do you have views on whether some or all of the commitments in existing and future deals could be funded through retained business rates? (Question 4)

12. Whilst it may be that some devolution deal commitments could be funded through retained business rates, this must not adversely affect the amount available to other areas. This relates to the £12.5 billion identified in the consultation document as being the current value of additional business rates revenue and the quantum available to local government from locally collected rates in 2019/20.

13. On the quantum figure itself, the £12.5 billion is said to be based on forecasts from the Office of Budget Responsibility. However, there is currently a

wide range of forecasts as to what the figure might be and it will be helpful for more information to be provided on how the Government's figure has been arrived at. The consultation document acknowledges that the quantum will need to kept under review and that final decisions will need to be made closer to the point of implementation. In our view, with the present economic uncertainties, in particular associated with Brexit, it would be prudent for the Government's current forecast to be the subject of early re-assessment and revision.

Do you agree that we should continue with the new burdens doctrine post-2020? (Question 5)

14. Yes – in our view it is essential for the new burdens doctrine to be maintained to ensure that full funding is in place to ensure new local services are sustainable. An essential part of this will to ensure that new burdens calculations include projected costs in future years to ensure service viability. If local authorities are to have the resources to invest in local economic growth, this will be especially important if the responsibilities to be devolved include demand-led ones such as Attendance Allowance.

Reset periods/tariffs and top-ups (Questions 6 – 9)

15. Our view is that it is essential to protect the less well-off authorities, with a balance being struck to ensure that protection measures do not undermine 100% business rate retention as an incentive to drive growth. The consultation document deals with the issue of this mainly in terms of resets to the system. A range of options for how frequently they could be carried out is given, with the Government preferring fixed reset periods, although acknowledging that the system of resets must be able to take account of local authorities whose business rates income declines within a reset period.

16. To offer an assessment of the re-set options suggested is difficult at this stage. To do so requires more detail on a number of factors on which there is as yet no clarity – such as services to be devolved, the degree of safety net protection, future revaluations and their frequency etc. However, whatever reset approach is eventually decided on, it will be important to be able to provide an adequate and speedy response to protect areas suffering economic shocks such as the closure of major employers and the decommissioning of coal-fired power stations. The Government needs to clarify its position on dealing with significant adverse economic events that impact on local business rate income and the extent that these can be dealt with within the 100% business rates retention system or need some form of separate investment fund.

17. On the subject of top-ups and tariffs, we note that the Communities and Local Government Committee in its recent interim report says that the evidence it has received supports the Government's view that the system of top-ups and tariffs should continue in the reformed system. The precise way in which this will work under the 100% retention regime will depend on more detail being available on the new responsibilities to be devolved etc. In two-tier areas top-ups/tariffs will need to reflect the distribution of responsibility between the tiers.

Should Mayoral Combined Authority areas have the opportunity to be given additional powers and incentives? (Question 11)

18. While we are not against the principle of elected Mayors and Combined Authorities, we do not support Combined Authorities with a directly elected Mayor being given the opportunity for an enhanced role in achieving growth under the 100% rates retention system as set out in the consultation document. In our view, it is essential for all areas, as far as possible, to have a level policy playing field on which to drive economic growth. Any additional powers and incentives should be made available to all areas, whether or not they have formed Combined Authorities and whether or not they have an elected Mayor.

What has your experience been of the tier splits under the current 50% rates retention scheme? What changes would you want to see under 100% rates retention system? (Question 12)

19. In two-tier areas, as the consultation document indicates, setting tier splits for the future 100% rates retention system will need to take into account the services to be devolved and their impact on the respective tiers of local government and that this will need to be considered further when decisions on the responsibilities to be devolved are made. We agree with this. However, at a broader level, whatever the mix of services to be devolved, the issue of two-tier splits needs to be looked at in the context of a fundamental purpose of 100% business rate retention being to drive local (and national) growth. On this, there is concern in two-tier areas at the inequity of the current system whereby upper-tier authorities receive only a small proportion of retained business rates despite the fact that they undertake significant economic development activity, particularly in relation to the delivery of critical strategic infrastructure and skills, which are vital to sustainable growth.

20. This is reflected in the interim report of the House of Commons Communities & Local Government Select Committee, which in its assessment of issues for consideration refers to "substantial evidence that the shares of business rate revenue retained by districts and county councils in two tier areas do not properly reflect the distribution of responsibilities between them" and that "Counties said that the current apportionment did not reflect their responsibilities for providing demand-led services or services which are linked to economic growth, such as transport, housing, schools, and gave them little incentive to promote growth"[5].

21. In our view, under the new system, the distribution of retained business rates, or any other business growth incentives, in two-tier areas must reflect fairly the respective contributions of the upper and lower-tier authorities in promoting and supporting economic growth.

[5] *100 per cent retention of business rates: issues for consideration* House of Commons Communities and Local Government Committee June 2016

What are your views on how we could further incentivise growth under a 100% retention scheme? Are there additional incentives for growth that we should consider? (Question 14)

22. As we said in our evidence to the Business Rates Review last year, local authorities should have more freedom and control over the business rate system to be able to pursue local incentives for business growth. In enterprise zones, the Government has enabled local authorities to offer businesses up to 100% business rate discount worth up to £275,000 per business over a 5-year period. We consider that local authorities in all areas should be able to respond to local circumstances by providing business rate discounts, reliefs and other incentives to support local businesses and key business sectors and promote local growth. Likewise, the ability to use retained business rates for future funding and borrowing to deliver infrastructure and investment that supports additional economic growth should be considered. Here, rolling investment funds, local enterprise zones and municipal bonds could all be considered as additional incentives to support growth.

23. On the subject of business rate reliefs, there is the important issue of mandatory reliefs, which can have a disproportionately high impact in some areas as for example in Cornwall, where the permanent reduction in small business rate relief has meant that around 80% of rateable value in the county is now subject to mandatory relief. In our view, local authorities must not be disadvantaged as a result of Government policy applied nationally. Mandatory reliefs of this kind should be fully funded by Government or local authorities should have more control of their eligibility criteria. Likewise, the impact of rateable value disputes and the often lengthy process these can take, can have significant impacts on the actual level of rates available at a local level and the ability for local authorities to forward plan.

Local tax flexibilities (Questions 21 – 31)

24. The consultation document states that under the new system, local authorities will be able to tailor their own business rates regime to fit the local economic environment, with the Government providing the following new powers:

- the ability to reduce the business rates tax rate (the multiplier); and
- the ability for Combined Authority Mayors to levy a supplement on business rates bills to fund new infrastructure projects, provided they have the support of the business community through the Local Enterprise Partnership.

25. We support the principle of providing local authorities greater freedom and flexibility over local tax setting but any new powers, including the ability to introduce an infrastructure levy, should be made available to all local authorities and should not be limited to Combined Authorities that have an elected Mayor.

26. On the question of introducing an infrastructure levy, we agree there will be a need to have the support of local businesses. However, the Government's view that this could be achieved by requiring approval by a majority of the business members of the LEP Board needs to be reconsidered, given the complexity caused by some local authorities having several LEPs covering their areas, and

the fact that, in some areas at least, LEP Board members have been appointed for their expertise rather than being representative of their local business communities. In our view, LEPs should be key consultees rather than having the role of approving or not approving.