# Department for Communities & Local Government: 100% Business Rates Retention - Further consultation on the design of the reformed system

# Views of the Chief Economic Development Officers Society (CEDOS)

**May 2017**

**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.

**Department for Communities & Local Government: 100% Business Rates Retention - Further consultation on the design of the reformed system**

**Views of the Chief Economic Development Officers Society (CEDOS)**

## Introduction

1. CEDOS participated in both HM Treasury's Business Rates Review in 2015 and the consultation - *Self-sufficient local government: 100% Business Rates Retention* by the Department for Communities and Local Government (DCLG) in 2016. We welcome the opportunity to respond to this further consultation and we are pleased to put forward our views, both overall and on individual consultation questions. In framing our response, we have, as always, taken soundings with our members across the country.

2. We recognise, of course, that the General Election to be held on 8 June will, at the very least, impact on the process of implementing the 100% business rate retention system. Nevertheless, we consider it important to respond to the consultation as set out in the DCLG paper.

## Overall views

3. 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. However, we must emphasise the key points we made in our response to the 2016 consultation that the business rate retention system must be operated in a way that:

- 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.

4. At a fundamental level, if 100% business rate retention is to be successful in incentivising local economic growth, there must be sufficient funding available for local authorities to continue their pivotal role of supporting and investing in growth. Much will depend on the additional responsibilities that come with the Government's decision for the introduction of 100% business rate retention to be cost-neutral and on the future of government funding to support local growth and on replacing EU funding lost as a result of Brexit.

5. The CEDOS report *Local economic Development 2016* underlined the central importance of local authority action and funding in driving local economic growth but also emphasised that despite the widespread priority given to economic

development by local authorities across the country, it remains an unprotected area of spend and continues to be vulnerable as councils struggle to cope with cuts to their funding alongside rising demand for care for the elderly and children's services and other areas of protected spend. The National Audit Commission has reported that local authorities' spending power fell in real terms by 25.2% from 2010-11 to 2015-16 and will fall by a further 5.4% by 2019-20[1].

6. The impact on local authority economic development of funding cuts was shown in our 2016 CEDOS member survey[2]; by the National Audit Office, which reported a reduction in budgeted spend 2010-11 to 2015-16 in the economic development service area of -47%, one of the highest reductions amongst individual service areas[3]; and by the Institute of Fiscal Studies, which has reported recently that "the largest cuts have been delivered in service areas related to what might be considered the wider objectives of local government - relating to local culture and economic development"[4].

**Specific consultation questions**

**What are your views on the proposed approach to partial resets? (Q1)**

7. As we said in our response to the 2016 consultation, a balance must be achieved between incentivising areas to drive economic growth whilst at the same time protecting local authorities that are less well-off. The current consultation recognises the need to find a balance and in this context, the partial five-year reset approach has been developed, with authorities being able to retain any growth in business rates income achieved during the five-year period over and above their business rates baseline in the years up to the point of reset; and at reset, being able to retain a proportion of growth achieved in the previous period, whilst not being expected to continue to bear a proportion of any loss.

8. In principle the proposed partial reset seems appropriate as a means of balancing incentive and provision for meeting need. Clearly, though, more development work is needed, for example on possible transitional arrangements after reset. There needs to be a closer look at the pros and cons of resets being carried out every five years. Whilst we can see the argument that relative frequency of resets will help in responding to the possibility of the balance of needs changing relatively quickly, at the same time, promoting sustained economic growth requires long-term planning for local employment, skills and infrastructure. This requires certainty and stability of funding over a sufficiently long period. It will also be important that, at the point of a reset, the proportion of growth in business rate income achieved by an authority that is retained is set at a level that is high enough to provide a genuine incentive to promote growth.

---

[1] *Planning for 100% local retention of business rates* National Audit Commission 29 March 2017
[2] *Local economic Development 2016* Chief Economic Development Officers Society October 2016
[3] *The Impact of Funding Reductions on Local Authorities* National Audit Office November 2014
[4] *A time for revolution: British local government finance in the 2010s*. Institute of Fiscal Studies October 2016

**What are your views on the Government's plans for pooling and local growth zones under the 100% Business Rates Retention system? (Q3)**

9. We support business rate pooling and Local Growth Zones being established on the basis of local area consensus. Business rate pooling by local authorities covering functional economic areas can benefit the ability to drive local economic growth. However, the Government proposal to update the way that pools are set up and broaden the ability of the Secretary of State to designate pools of authorities, is a matter of concern. Whilst it may be appropriate for Government to strengthen incentives to set up pooling arrangements, the intention to remove the requirement for local authority consent is fundamentally at odds with localism, the commitment to devolution and the principle of local democracy. The proposed introduction of a statutory requirement to consult affected local affected local authorities will not be sufficient on its own.

10. We support the proposal for a new power to enable local authorities themselves to establish Local Growth Zones (LGZs) and be able to keep a proportion of growth in business rates income from these Zones outside the rates retention reset system for a specified number of years – subject to detail on the parameters to be set by government.

11. The consultation paper refers to possible parameters including, for example: the proportion of growth retained in the local growth areas; the number of years for which the local growth areas would exist; definitions about the geographical areas; a connection to investment from the local authority/ies in the local growth areas; and the purposes for which growth in business rates income from the local growth areas could be used.

12. In developing the parameters, which should be the subject of further consultation, Government must have regard to the varying economic and demographic circumstances in different parts of the country. There should not be an automatic one-size-fits-all approach. Within this overall point, we would like to make some initial comments on some of the possible parameters listed:

- *Number of years a Local Growth Zone could exist* – This should be set on the basis of discussion and agreement with local areas to enable realistic long-term planning and action on, for example, infrastructure improvements and skills developments necessary for local areas to drive economic growth;

- *Geographical area definitions* -The consultation paper states the Government view that business rate pools under 100% business rates retention will be the right geographies to maximise the opportunities for growth. Providing these are based on local authority consensus, this is an appropriate approach but to be effective in driving economic growth, there needs to be a coherence with functional economic geographies;

- *Purposes for which growth in business rates income from the Local Growth Zones could be used* – We consider that there should be a clear expectation that this would be used for purposes that contribute directly to driving local economic growth.

**How can we best approach moving to a centrally managed appeals risk system? (Q4)**

13. CEDOS has raised consistently the issue of business rates appeals and their impact on councils and their ability to invest in economic development and business growth[5]. The Communities and Local Government Committee, in its Inquiry into the Government's business rates proposals, received substantial evidence on the impact of the volatility and uncertainty injected by appeals on predicting business rate income. We therefore welcome the intention to move to a centrally managed appeals risk system.

14. Advising on the detail of the most appropriate approach to moving to this system is best provided by local authority finance professionals. However, we would like to refer to the overall issue of how the system will be funded. The consultation document states that it is the Government's intention to fund it by top-slicing from business rate income and holding and distributing this centrally. In this context, we note that the House of Commons Communities and Local Government Select Committee in its recent Inquiry referred to a range of suggestions that had been raised including dealing with appeals outside the business rates retention system and funding them separately, for example using the central list[6]. We would like to see Government and the local government sector set out clearly an evaluation of funding options, including the impact of further top-slicing of business rate income, particularly given the effect on local authority economic development spending of the cuts to council funding we referred to earlier.

**What should our approach be to tier splits? (Q5)**

15. The consultation paper confirms that the Government intends to continue to set tier splits - the percentage of business rates income that each tier of authority would get - "to ensure that risk and reward is shared amongst billing and precepting authorities". The consultation paper sets out the Government's intention to use tier splits to help manage the level of risk and reward open to councils in multi-tier areas, recognising, in particular:

- the importance of providing stability of funding for adult social care services;
- the ability of different tiers to influence growth;
- the services devolved to different tiers.

16. We agree with this overall approach, which reflects the views we put forward in our response to the Government's 2016 consultation on 100% business rates retention[7]. However, we re-iterate our view that whatever the mix of services to

---

[5] See, for example, CEDOS evidence to: H M Treasury Business Rates Review May 2015; House of Commons Communities & Local Government Committee Inquiry into the Government's business rates proposals January 2016; and Department for Communities & Local Government Self-sufficient Local Government - 100% Business Rates Retention Consultation September 2016;

[6] *100 per cent retention of business rates: issues for consideration* House of Commons Communities and Local Government Committee June 2016

[7] *Self-sufficient local government: 100% Business Rates Retention* Department for Communities & Local Government 2016 – Views of the Chief Economic Development Officers Society (CEDOS)

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 economic growth and through this national growth.

17. 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 strategic infrastructure, inward investment, business support and skills, which are vital drivers of sustainable growth. The provision of effective strategic infrastructure is one of the main enablers of growth, the cost of which is frequently far higher than available budgets within the upper tier when considering the wider calls on funding e.g. adult social care pressures. Given that the Community Infrastructure Levy has failed to bridge the viability gap in many areas, in our view, under the new system, the distribution of retained business rates in two-tier areas must reflect more fairly the respective contributions of the upper and lower-tier authorities in promoting and supporting economic growth.

**What are your views on proposals for a future safety net under the 100% Business Rates Retention system? (Q6)**

18. We agree with the need for a safety net under the 100% Business Rates Retention system to protect less well-off authorities[8] and to enable a response to changing circumstances including economic shocks affecting individual areas. The proposal in the consultation document is for the safety net to be funded from within the overall Business Rates Retention system through a top slice to the overall quantum. It will be important to ensure that in doing this, the safety net provision is balanced with the need to incentivise the drive for growth. The results of the trialling of a safety net set at 97% of baseline funding level by 100% business rate retention pilots will need to be assessed in this context.

**What are your views on our proposals for the central list? (Q7)**

19. We agree with the intention set out in the consultation paper that there should be stability and certainty for local government regarding whether hereditaments should be assessed on the central list or local ratings lists. There needs to be a clear and transparent statement of policy on which properties and ratepayers should be assessed to the central list and we would underline the importance of a full consultation on a central list policy as set out in the consultation paper.

[8] This also underlines the importance of the fair funding review.